CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION (CIDFAC)

Proposed Revision to the CDLAC Points System Summary of Written Comments

California Association for Local Economic Development (CALED)

1. **The current point system has worked fairly well the last two years. We believe there is a need for modification of the jobs category to reflect the increased productivity of the manufacturing sector, however, the current system has seven major categories with seven sub-categories would be increased to eight major categories with 10 sub-categories. We urge CIDFAC to incorporate user-friendly techniques to minimize increased costs associated with the application preparation. CEDA would be happy to work with CIDFAC to develop checklists and Yes/No type questionnaires to assist in this effort. We urge CIDFAC to incorporate streamlining procedures and application simplification with any increases in documentation requirements.**

2. **Job Retention: CEDA suggests establishing a procedure for maintaining confidentiality of the business; engagement of a site selector or its formal analysis of the option to cease operation. This information could be considered proprietary and should not be part of public record.**

3. **Health, Dental, & Vision: No Comments….appreciate re-working of the worksheet to make it more user-friendly.**

4. **Economic Development – a. Exports outside California: To reward exporters is a laudable goal; however, we are concerned about the data that would be required to prove to CIDFAC staff's satisfaction that the business was in fact exporting and that this information could be considered proprietary.**
   b. Source Materials made in California: See comment 6a above.
   c. Employer Training: Many of the employer training programs cited in the CIDFAC draft are targeted to small businesses. However, we are concerned that larger corporations would be at a disadvantage simply because they do not participate. Larger firms are often organized as corporations and how would one document that the "employer" had participated in continuing education targeted to small business?

5. **Energy Efficiency: Recommend that CIDFAC implementing regulations include a definition of "renewable energy equipment to power the manufacturing process".**

6. **LEED-Certified manufacturing facility: Since many of our projects involve the acquisition of existing facilities, we are concerned that those Borrowers would be at a disadvantage in the awarding of points.**

Growth Capital Associates, Inc. – Daniel Bronfman

7. **Given the poor economic conditions in California and the dramatically increased unemployment rate, particularly in the manufacturing sector, I suggest that it might be appropriate to suspend most of the elements of the currents and proposed point system to increase access to IDB funds and send a signal to the business community that investment targeted at the manufacturing sector is critical to the long-term stability of California. In recent years the IDB program has been generally underutilized given the size of California. Based of the economic outlook and tight credit markets, there is a strong possibility that IDB volume could drop in 2009. A stream-lined review process could prioritize projects as follows: first projects in Special Designation Areas; second projects that score highest under Community Economic Need criteria; and third projects that create/retain the highest number of jobs.**

8. **Job Retention: Adding a standard of proof based on the hiring of a site selection consultant might not be appropriate for an IDB funded project. Given the modest size of the average IDB borrower, I believe that it would be unusual that a site selection consultant would be retained to assist in the relocation process. In cannot recall any of my IDB clients ever hiring a site selection consultant.**

9. **Payment of Benefits: Add a category that awards points for providing a retirement savings plan to employees.**

10. **Community Economic Need: When assigning points for poverty, allow the Project Sponsors to identify a project benefit area.**

11. **Economic Development: These criteria might result in unintended consequences and potentially embarrassing publicity. This should be discussed further. Wording relating to these types of matters could be sensitive.**

12. **Environmental Stewardship: With regard to public transit, what types of changes is staff considering? I'd suggest increasing the ¼ mile test to ½ mile.**

California Apollo Alliance

13. **Job Creation: The California Apollo Alliance (Apollo) has concerns about revising this section and would like to have discussions with your office about it.**

14. **Job Retention: We agree with CIDFAC that IDB funding should be contingent on remaining in California and not ceasing operations when faced with economic pressures. The California Apollo Alliance recommends that manufacturers additionally avoid downsizing their workforces from the levels that were reported at**

the beginning of their IDB funding period, and any reductions in staff size should disqualify manufacturers from funding. Additionally, CIDFAC should consider retention requirements and criteria used by the California Employment Training Panel.

15. **Add "Incumbent Worker Retraining" as a category: Apollo recommends that incentives should not only be considered for new job creation and worker retention, but also for incumbent worker retraining in industries or occupations related to energy efficiency and/or emissions reduction efforts, water conservation, cleanup and reuse, and green chemistry.**

16. **Average Hourly Wage: Apollo recommends that project sponsors be subject to prevailing wage requirements determined by the California Department of Industrial Relations, as is the case for IDBs Small Business Program. At a minimum, wage requirements should be calculated in the same manner that "Standard Wages" are determined for projects approved by the State Employment Training Panel.**

17. **Workforce Development: Apollo applauds the proposal to create a workforce development category and agrees that points should be awarded to employers participating in training partnerships. Priority should be awarded for established labor-management training partnerships (including Joint Apprenticeship Training Councils). These partnerships are generally sector-based, provide the most effective training and retraining for incumbent workers, provide pipeline access for new hires, and usually provide career ladder opportunities. They also substantially improve union/management relations.**

    Apollo agrees that creating effective partnerships is a key element of any workforce development system. Criteria should be established to encourage local and regional cooperation among industry, unions, joint labor-management partnerships, local workforce investment boards, state/local agencies that serve the targeted groups, community colleges, and other workforce and education entities.

    CIDFAC makes an inaccurate statement that "California does not have a well-trained workforce." While the State anticipates the workforce shortfall as workers reach retirement age, it must recognize that California has 53,000 trained apprentices in the State, many of whom are well skilled in the manufacturing sectors.

18. **Economic Development in Green Manufacturing: California's Cleantech manufacturing sector will only grow if the State addresses some of the barriers to attracting new companies to locate in California and does not encourage existing companies from staying in-state or expanding its workforce. The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) removed one of the biggest barriers to attracting clean energy**

companies that build Zero Emission Vehicles (ZEMs) when it exempted Tesla Motors from paying the sales tax imposed on new manufacturing equipment (June 30, 2008). California is one of only 4 states, along with Alabama, South Dakota, and Wyoming that requires a "double" manufacturing tax.

Apollo recommends that the State Treasurer's Office (STO), through CAEATFA and CIFAC develop a way to offer the same financial incentive as with ZEVs to Cleantech manufacturers that are considering locating or expanding in California, and to existing manufacturers that are working to reduce greenhouse gas emissions in order to meet AB32 goals.

Apollo also recommends that the STO partner with the Air Resources Board to implement the Buy California Program, and to work with the California Business Transportation and Housing Agency on developing a Manufacturing Attraction Program proposed by the Economic Technology Advancement Advisory Committee's (ETAAC) fund. The Buy California Program could offer credit in the form of grants, tax incentives, loan and guarantees and seed capital to promote the use of renewable energy components manufactured in-state.

19. **Environmental Stewardship: Apollo recommends that more points be assigned to "environmental benefits." The State could use an environmental benefits spreadsheet similar to what the Department of Energy uses for its loan guarantee programs.**

Industrial Development Authority of Alameda County – Keith Sutton

20. **Suggest revision and simplification of the IDB application itself. The IDB application has been made so complex and difficult that a business or an untrained economic development person cannot put one together. CIDFAC needs to focus on the application so that it is less costly in time/money to put together, less complex and has less verification.**

21. **I appreciate the desire to reform the system used to grade the projects, and the revision of the jobs point system is strongly supported, but any desire to "strengthen the quality of projects, and the public benefits provided by projects, or by grading or "greening" businesses (requiring "green" public benefits) almost surely would reduce the number of those small business projects that will be introduced. It brings another level of complexity and uncertainty into the IDB program.**

22. **Jobs: I think the percentage increase would be more fair and realistic, as long as it is based on realistic numbers. It would also award points for smaller increments. But, I suggest having an accounting firm determine the levels – arbitrarily picking a number/ratio that has no relationship to reality could make the point level punitive instead of a reward. The additional job retention requirements will make it almost impossible for a business to qualify for this category.**

***Site selectors - very few companies of this size could afford or want to engage in a site selection process. The closest they might come to this is contacting a real estate broker. If they were to go this far they will almost certainly be gone and our retention efforts will have been in vain. We do not want to encourage businesses to consider or even look at out of state options because we are not competitive.**

***Ceasing Operations - I will not ask an IDB prospect for documentation that it has "formally analyzed the option to cease operations." I have been a loan officer and ran revolving loan funds for 8 years prior to taking this position, and the closest thing I can imagine The First of all, that is what a balance sheet and income statement says, Lets see, we want this business to use an IDB to obtain financing (which requires that the business qualify for a LOC a private placement), and they are not going to be creating very many jobs so we want documentation that a business is going out of business but it still has to qualify for bank financing?**

***Business Retention - The reason why the job retention requirement was added in the first place was because manufacturing businesses in particular are having such a hard time; businesses often have to lay off employees to stay in business; and often when new equipment is purchased, the business will be able to operate more efficiently and in some cases may even lay off employees in the short term (doing what it needs to do to survive) and even in when businesses add new product lines, or increase their output with new piece of equipment, the number of employees needed in relation to the cost of the equipment is maybe 1 per $ 1 million due to computerization and mechanization.**

From July 2000 to July 2008 in California, manufacturing lost 434,300 jobs (20% of the number of in 2000), and by far the most of any industry sector in the State. That includes a loss of almost 40,000 jobs in the last 12 months!
How many more thousands of jobs and businesses do we need to lose? Every business that has survived the last 7 years in CA has struggled with much higher operating costs for labor, lease or bldg. payments, electricity, tax rates, business licenses, Workman's Comp. etc. Retaining that business by helping to lower or fix its operating costs with an IDB and/or purchase equipment that will allow it to operate more efficiently is the least we can do.

***Retention documentation and enforcement - Why are borrower's job creation or retention representations even required or included in bond documents when it is not legally or realistically possible to make any the job creation/retention a reason to call the bonds? The bonds could not be sold if there was a potential that they would be called for such a reason. The business has to do whatever it deems necessary to**

stay in operation and expand and that really is what is most important. If the company were to hire more people than it could afford and went out of business, all public benefits will be lost. The representations made in CIDFAC's IDB applications are "good faith" projections that can be exceeded or not met due to circumstances beyond their control. Monitoring that growth or decline may be nice to know but it cannot impact the bond now or in the future. That a manufacturing business is willing to make a capital investment in California should be reward enough for a State that has done more than is reasonable to "Murder Manufacturing in the US".

I suggest the following: Give points just for job creation but do not make it a qualification factor.

23. Workforce Training: Providing points for additional "Workforce training programs", Economic Development, Exports and CA source materials will qualify hundreds of programs that has some "public benefit" to somebody, somewhere, sometime, that we could add to this list, and of course every program that is added has to be approved, measured, qualified, given a value and more documentation and verification will have to be established, making this the endless IDB application of 2009.

24. Economic Development: The way we need to recognize a manufacturer's contribution to the economy is to enable every business that qualifies to get an IDB. Congress recognized their "public benefits" and established the IDB bond program. Congress does not require any more public benefits and assigning arbitrary "points" can be counter-productive. While the intent is laudable and reflects much of what we have been saying in making a case for more IDB allocation, if it makes it harder to complete the application and businesses have a harder time qualifying, then it is counter to the intent of Congress.

I strongly disagree that we should give an advantage to manufacturers that export (because it has been reported) and I have a real problem with the use of multipliers as I have seen a large variety used and in reality they vary so much with each community, each product and even each business, that they can only provide indications of potential and somewhat comparative benefit. We would need to know what is exported (are we going to place those who export recycled metal vs one that is exporting expensive, large &/or high-tech machinery or maybe carrots?); how much is exported (do 2 cases of wine or bolts count?); and even who actually exports it (the company, a local person, small business, trade program or is it sold to another company that exports it?); and where it is exported to are all significant variables.

This could be a nightmare and result in regional battles (central valley ag based businesses vs silicon valley tech companies)! And it's totally unnecessary!

25. Environmental Stewardship: So here we go again – another large group of new or expanded points. This is a very arbitrary process – who decides how many points should be assigned a particular level, what the levels and points are, how is the level to be documented and what is the reason we are giving "points" to this category in the first place. This might work if CIDFAC would accept a statement by a company or even the local issuer as true, but the verification process can make something simple, quite complex, because nobody else reports on most of these things and it is easy to get into confidential data or be downright offensive to businesses.

Realistically, CIDFAC can never be "a driver California's green economy" and we cannot afford to prioritize by industry because we need every one we have and most depend upon other industries. But CIDFAC does have the potential to help California's economy by using the only real tool we have to retain and grow manufacturers (which includes a very few "green" companies). The big green boys will never qualify or need IDB financing, and the new businesses, the R&D and those beginning the manufacturing phase will not qualify financially. There is a reason for that – what has happened to the private financing industry should provide a good illustration of the risk involved. So we have the non-sexy, family owned machine shop that is still needed to manufacture parts for the currently hot product. Without those businesses, these new tech businesses could not "make" their products or would go overseas or out-of-state for those components.

A few years ago it was computers, then computer components, then bioscience, then cell phones and now its "solar cells." Chasing the currently popular or strong industry is not right or even possible. All businesses are equal in the federally designed IDB program and limiting the program or giving preference to "current", "quality" businesses and industries will have a negative impact that would be very, very harmful to the program and CA's remaining manufacturers. We have to look at the long term here.

In the last 5 years, the IDB application process has been made so complex and difficult that there is no way a business or an untrained economic development person can put one together. If CIDFAC really wants to improve the program, make it more accessible and increase the number of businesses participating instead of trying to make it more difficult for a business to qualify. It should focus on streamlining the application process instead of trying to make CIDFAC the new economic development leader in the State. Getting every business that qualifies to participate in the bond program can be the only goal.